

New Rules Chip Away at Medicare Part D Costs

Big changes are coming to Medicare Part D drug plans in 2024 and 2025 that will significantly reduce the out-of-pocket costs for seniors, and for many of them eliminate the restrictions of the "donut hole."

The rules were part of last year's Inflation Reduction Act, which included other changes to Medicare aimed at reducing the cost of drugs for enrollees, including provisions that took effect in 2023 capping the cost of insulin at \$35 per month.

However, the larger out-pocket savings for Medicare Part D enrollees will roll out in the next two years:

Catastrophic coverage overhaul

Currently, once you enter the catastrophic coverage phase of your Part D plan coverage, you pay 5% of the price for each of your drugs — or \$4.15 for generics and \$10.35 for brand-name drugs, whichever is greater.

Starting in 2024, enrollees who enter the catastrophic phase of their coverage will no longer have to face any cost-sharing for Part D drugs.

In 2023, you enter the catastrophic coverage phase after you have spent \$7,400 out of pocket on medications. The following expenses count as out-of-pocket costs:

- Your deductible.
- Copayments or coinsurance you paid for your medications during the initial coverage phase.
- Money you spent in the coverage gap, commonly known as the "donut hole." You enter the gap after you and your Part D plan (or your Medicare Advantage plan with an attached Part D plan) spend a combined \$4,660 on pharmaceuticals. While you are in the donut hole, Medicare pays 75% of the cost of your drugs. Only the 25% you pay for drugs counts toward getting you out of the coverage gap.

Capping out-of-pocket drug costs

The really big change that will bring relief to tens of thousands of seniors comes in 2025, when out-of-pocket costs for covered Part D drugs are capped at \$2,000. This essentially eliminates the catastrophic coverage phase and greatly reduces the time spent in the coverage gap for many enrollees.

After 2025, the cap will be indexed by inflation and change every year.

There is one additional change aimed at helping Part D enrollees to better budget for their drug expenses. Starting in 2025, you will be able to choose to pay your out-of-pocket Part D costs in monthly amounts spread over the plan year.

Part D plans

Part D plans cover pharmaceuticals for Medicare enrollees and can significantly reduce out-of-pocket expenses. These new rules chip away at how much you have to pay.

For 2023, the average monthly Part D plan premium is \$31.50, and the maximum annual deductible is \$505. However, if you earn more than \$97,000 a year (for senior couples, it's \$194,000), you have to pay a surcharge, which rises in tiers depending on your income.

You have the opportunity to sign up for a Part D plan when you first enroll in Medicare.

If you do not sign up for Part D coverage when you first become eligible for Medicare, you will have to pay a late enrollment if you join a plan later. That penalty increases for each month you wait to join a Medicare drug plan and it stays with you for life.

If your Medigap (Medicare Supplement) policy covers prescription drugs, you'll need to tell your Medigap insurance company if you join a Medicare prescription drug plan.

The Medigap insurer will remove the prescription drug coverage from your Medigap policy and adjust your premium. Once the drug coverage is removed, you can't get that coverage back, even though you didn't change Medigap policies.

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